

Pathway to Development

CHECKLIST

Commercial real estate development is about taking ideas on paper and turning them into real property. It's a process that delivers a product in order to meet some form of consumer demand. But the development process is intricate.

Real estate development involves participation from a wide variety of professionals, including architects, landscape architects, civil engineers, site planners, attorneys, environmental consultants, surveyors, title companies, lenders, architects, general contractors, and subcontractors, amongst a variety of others.

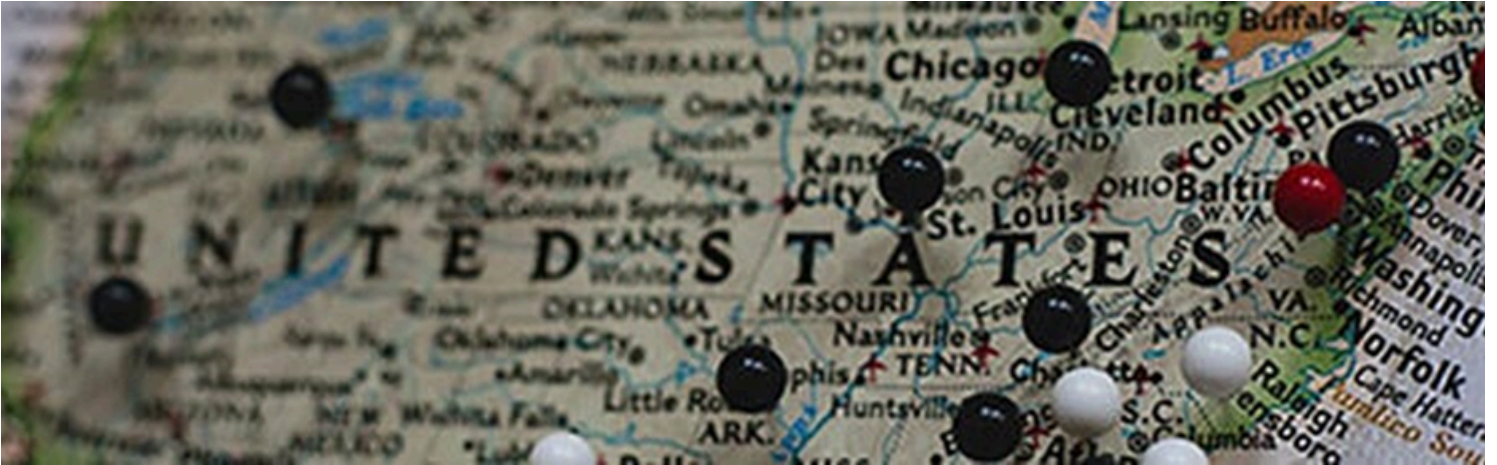
The commercial real estate development process is broadly broken out into 3 stages

Stage 1: Site Selection and Deal Making

Stage 2: Development and Entitlement

Stage 3: Construction and Tenant Turnover

Stage 1: Site Selection and Deal Making



The initial phase of commercial real estate development involves a tremendous amount of research and analysis to determine if a proposed development is truly viable. A successful retail site must meet market demand, satisfy tenant requirements, satisfy lending conditions and regulatory requirements, and must accommodate the consumer.

Site Selection and Evaluation

Using multiple sources of information, commercial real estate developers look at all available properties within a designated trade area that meet basic site requirements. Some of the most important factors that go into determining the right site are:

- Property Size
- Visibility
- Traffic Flow
- Demographics
- Zoning Restrictions
- Surrounding Infrastructure
- Potential Access Points
- Competitors (and their performance)
- Nearby tenants (and their sales data)

And there are a whole host of additional factors that play into finding the right property to fit the client's needs.

And another one of those important factors is the cost basis. Which site provides the developer, and/or the client potentially lower construction costs and a greater investment opportunity?

Due Diligence/Research

In this phase of the commercial real estate development process, steps are taken in order to satisfy legal requirements and ascertain the risks and advantages of the

transaction. As a prospective buyer, developers must thoroughly examine zoning restrictions, potentials liens, and possible encroachments on the property.

The developer must ask themselves if the assumptions about the proposed development (legal, physical, economic, market) are valid or have they been verified?

You have to find out what kind of requirements are needed in order to develop the property? You'll also want to determine what kind of offsite work you may be dealing with. Is the zoning in the area you're looking at going to be an allowed use? If the property needs to be rezoned or requires a variance, what's that process? There are a number of questions you'll want to get answered about potential sites.

And getting this information generally involves reaching out to municipal planning departments.



It's important to remember that no two municipalities are the same, so initial engagement with planning departments will provide a sense of how pro-development the county might be.

Once you have the adequate information and have a specific site selected, that's when you really dive into the process. Working with the municipal/city planner, you'll establish that for a specific site, you plan to build for a specific user. This will give the city an idea of what your general development plans are.

Once your site has been preliminary reviewed and selected, you'll move forward with creating a site plan. Doing this allows you to visually address if this project can actually work. Can you meet setbacks? Can you meet parking requirements? These are just a couple of the questions you'll be able to address once the site plan has been created.

Site Investigation Reports (SIR) / Feasibility Study

Site Investigation Reports are a collection of data/questions assessing the potential issues with the site, or what needs to be done in order to meet all requirements. These include requirements for:

- Parcel Land Use and Zoning
- Engineering
- Building Permits
- Fire Department Requirements
- Building Setbacks
- Parking Setbacks and Requirements
- Landscape Setbacks
- Lighting Ordinance
- Signage Requirements
- Access and DOT requirements
- Off-site/Public Improvements
- Utilities
 - Water
 - Sewer
 - Storm Drainage
 - Power
 - Gas
 - Phone/Cable

The goal of this data is to place emphasis on potential problems that could occur if a project is pursued.

A thorough examination will provide the developer with some confidence that the project is feasible and has the potential to be profitable. Essentially the study asks, do the anticipated future benefits exceed the expected future costs of the proposed commercial real estate development.

Some of the major financial factors to look at include:

- Land Purchase & Acquisition Costs
- Finance Costs
- Professional Fees
- Utility Connection Fees
- Impact Fees
- Permit & Review Fees
- Construction Costs
- Insurances
- Closing Costs
- Income & Profit

Municipality and Lender Required Reports

Site evaluation will also involve obtaining official reports denoting some of the physical and environmental aspects and potential hazards on or associated with the site.

Phase 1: Environmental Study

The Environmental Site Assessment Phase 1 (ESA Phase 1) is an environmental due diligence report prepared for real estate transactions such as land purchases and building purchases.

The main purpose of this report is to ensure there is no soil or groundwater contamination from previous use or neighboring sites. Any contamination in these reports may impact the property's value or limit its use.

Phase 2: Geotechnical Study (Soil Study)

The goal of this study is to obtain information about the soil consistency and the geological structure of the property. It may uncover certain characteristics of that site that would add costs to the project, and the report will provide certain recommendations for the development project site.

In the case of a geotechnical study for a development project, the following are important areas of examination:

- Footprint of the building
- Land area on which the building will be located
- Land slope
- Land closeness to water (lake, stream, river)
- Geographical location where the building will be located

Survey

A property survey is a legal document that shows the location of all improvements relative to a commercial property's boundaries. It depicts the boundaries and descriptions of the property easements, rights-of-way, and encroachments found on the site.

This report generally contains an illustration of the physical features of the property and a written report detailing the surveyor's opinions and concerns.

Preliminary Budgets Established (Proforma)

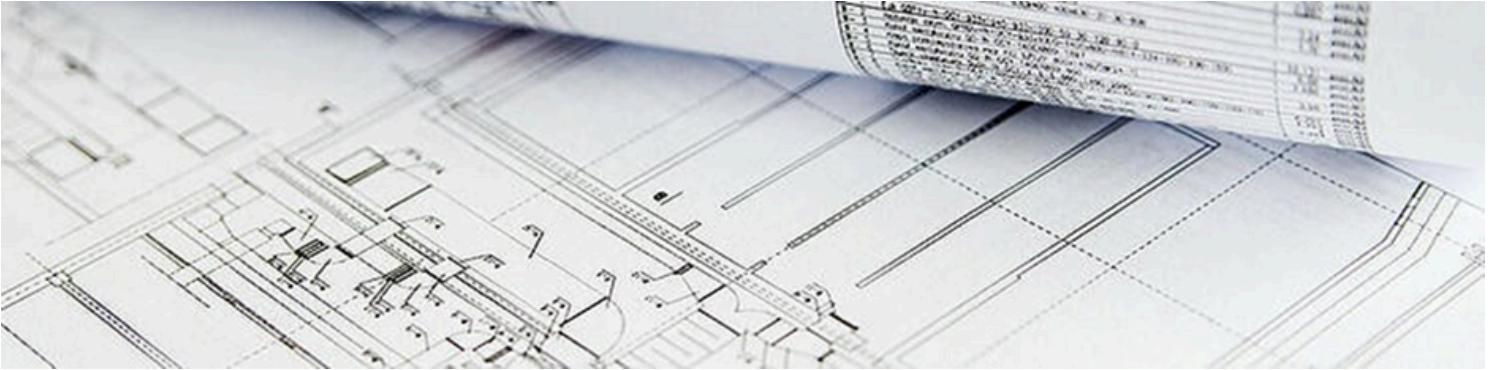
A preliminary budget, or proforma analysis calculates the projected financial return that the proposed commercial real estate development is likely to create. It begins by laying out the proposed project in quantifiable terms.

By sending site analysis and plans to consultants, contractors, our Director of Construction, and Development team, we are able to get input on the site and determine what specifics are needed for the project, estimated costs for particular improvements, consultant fees, etc.

All of that goes into creating a rough estimate of revenues that are likely to be earned, costs that will be incurred, and ultimately the financial return the commercial real estate developer will likely see.

Purchase Contract Signed

Stage 2: Development and Entitlement



Once your site plans are created, due diligence research has been done, and purchase contract signed, it's time to get down to the development details. This next phase focuses on critical sign-offs and approvals required for the newly proposed commercial real estate developments to come to life through municipality approval.

Hiring Architects, Engineers, and Consultants

Getting a commercial development off the ground often starts with bringing in a number of consultants including architects and civil engineers. Their role is to ensure the most viable development plans and processes are going to be put into place, resulting in a successful and under budget development project.

Architects

The goal of the architect is to draw up an initial concept scheme, and a good architect will ultimately add considerable value to your project by designing a project that is functional for the tenant and appealing to the marketplace and neighborhood it's located in.

Landscape Architect

The landscape architect's job is to design municipality required landscaping around the site plan. This typically means natural plants and trees to offer shade and a natural aesthetic appeal.

Mechanical, Plumbing, Electrical Engineer

These engineers ensure the HVAC is designed adequately for conditions, plumbing is meeting the correct connections and draining properly, and electrical wiring is properly placed in needed areas to meet building codes.

Structural Engineer

Structural engineers work with architects to factor in the weight and loads of construction materials on the ground they sit on. This is to ensure the building will support itself and not sink into the ground. Their main goal is to develop a structural design that is both functional and cost effective.

Civil Engineer

A civil engineer is used to identify many of the technical issues relating to the civil design of project elements. Storm drainage, parking lot and sidewalk design, driveway connections, and conforming to grade requirements are managed by civil engineers. Factors such as topography, environmental issues, or utilities play major roles in how sites are laid out and designed. The engineer's explanation of these issues may result in a different development strategy for the property — one that provides a better project at a lower cost.

Community Outreach and Communications

The commercial real estate development process is one that not only involves active parties, but impacts the surrounding communities and businesses as well. The goal of community outreach during commercial development is to keep a project's neighbors informed of the proposed development plans, including benefits, potential rezoning, community impact, etc. The ultimate goal is to inform and hopefully improve community sentiment for the project's approval while taking consideration for their input.

Municipality Submittal and Review

In order for projects to become realities, they must first get the approval of the appropriate municipal and government entities. Submittal and review often entails the following:

Zoning Review

Zoning review is meant to ensure the compliance with standards and provisions set by each municipality, while encouraging quality development. It's intended to encourage the most appropriate use of the land, enhance aesthetic value, and facilitate adequate provision of transportation, schools, parks, and other public requirements.

Site Plan Review

A detailed site plan is submitted, along with associated documents to particular government departments, agencies, utility companies, etc. for review and initial comments. The purpose of the review is to address how the particular development is designed and to address any issues related to public safety, water supply, sewage disposal, utilities, traffic, emergency access, public obstructions, and a variety of other elements.

Design Review

Provide architectural building elevations, landscape plans, and drawings related to design principles and meeting the aesthetic requirements.

Once the site plan and design are approved during design review process, you are generally allowed to submit construction drawings for review by the building

department.

City Entitlement Process

Before a project can commence, you must be granted permission from local regulatory agencies and the community. It is crucial to be prepared for this stage of the development process, as you may be asked many questions from city planners, local residents, and government leaders.

Examples of Entitlement can be:

- Rezoning
- Zoning Variances
- Use permits
- Utility approvals
- Road approvals
- Landscaping

City Council or City Planning Commission Approval

Oftentimes, new commercial development must first receive approval from city council, city planning commission, or some municipal body. Working with, and gaining approval from the city's planning department generally allows for a planning commission or city council to approve the project at a formal public hearing. However, not all projects need the official approval of a city council or planning commission.

Public Hearing

A public hearing will take place for local property owners and residents, in order to hear feedback on the proposed commercial development. Any individual or community group including a neighborhood council has the right to speak on the proposed project.

Pre-Construction Coordination

In the preparation for the commercial construction process, commercial developers will dive into handling construction bids. Based on the proposed scope of work, general contractors will prepare and submit estimate bids of the project cost and schedule for completion.

Through this process, developers are not only able to narrow down the search for general contractors, but also apply the estimates towards finalizing the budget.

Construction Drawings/Building Plan Submittal

Once a project receives approval from the city planning commission or city council, you move into construction drawing/building plan submittal with the building department.

The municipality will then review the plan for compliance with the approved preliminary site plan, project conditions of approval, the required building plan checklist, and all

applicable codes and ordinances. The site planner reviews the site plan for final approval with the building plans.

Finalize Budget

As the project works its way through the entitlement and approval process, a commercial real estate developer will begin to get a much better sense of what cost and timing is required to construct the project successfully.

Some important keys to successfully budgeting are: familiarizing yourself with all relevant government building codes; understanding which line items are necessary and which are flexible; accounting for hidden costs; and being flexible with your budget.

Creating a final budget takes into account factors such as:

- Permits
- Insurance
- Site preparation
- Construction costs (both hard and soft)

Building Permits Approval/Issuance

Once plans have been reviewed during the usual rounds of the review process, and determined to be in compliance with the city/municipality codes, building permits are then issued. These permits give the developer authority to start construction work and allows for appropriate inspections to be performed.

Close of Escrow

This is essentially the final step in the execution of the initial real estate purchase transaction. A title company or other trusted party will transfer funds and the deed of trust to the involved parties.

For some commercial real estate developers, this step in the process may come at a different stage. Some developers may prefer to close on a property once all of the permits and approvals are in place, while others may actually close before the final permitting process.

Getting a property fully approved, entitled, and closing on the land requires time, experience, relationships, and persistence. But once the project has been given approval and is entitled, it's ready for contractors and builders to bring the commercial development to life.

Stage 3: Construction and Tenant Turnover



Now that your development plans have been submitted and approved, your permits issued, and you've closed on the property, it's time to start building. This is where the contractors and builders will bring the commercial development to life.

Overall Construction Coordination

As a commercial real estate developer, the construction aspect of the project revolves around managing and coordinating the construction stage, as opposed to actually constructing the building. Working with general contractors and subcontractors, the overall construction coordination often consists of:

Weekly Construction Calls and Reports

As a way to stay in direct contact with general contractors, a developer's construction department will generally take part in weekly update calls. These status updates focus on the overall progress of the development, while going over upcoming schedules and time frames. Additionally, the calls will address any major issues that may hinder the timely completion of the project.

In addition to the weekly construction calls, written progress reports are submitted by the general contractors to the developer in order to address the project status, schedules, etc.

Handling RFIs from Contractors and Architects

During the construction phase, commercial developers are also responsible for managing Requests for Information (RFIs). These requests often come in because not all construction documents may address every single matter of the construction process.

These requests are issued in order to help contractors get clarification on project details or ask for a decision to be made on particular elements.

Pre-Construction Meeting

Before any digging or hammering, it's important that the developer, general contractor, subcontractors, architects, and other involved parties are on the same page about the overall construction plan and the expectations.

These meetings should be used to:

- Establish the appropriate roles and responsibilities
- Determine special project needs and requirements
- Establish quality expectations
- Define problem-solving measures
- Develop a schedule of project meetings
- Address questions and concerns about the construction phase of the project

The plans and guidelines that are discussed and laid out in the pre-construction meeting will help you navigate issues down the road and ensure you're on course for a successful project.

General Contractor Mobilization

Generally, the first step in beginning the actual construction of the commercial project is mobilizing crews to the site. This entails organizing and planning to get contractors, equipment, and materials to the site in order to start work.

At this same time, permits are typically pulled for the property, including building, electrical, plumbing, mechanical, etc.

Survey Staking

Once you're ready for your plans to become a reality, survey staking is one of the first steps you will take.

This is the process of taking a planned development and physically mapping it out on the site. Generally staking is used to represent the property lines, inner and outer walls of the building, the storm and drainage flow, and concrete features such as driveways, sidewalks, and curbs.

During staking, you'll also likely take soil samples from the site. A soil engineer will test to ensure the subsurface soil conditions match the conditions of the initial investigation, and may modify design recommendations as necessary.

Earthwork

This is the stage in which the actual ground on which the new development will sit begins to take form to adequately construct the new building. Earthwork in excavation

and back-filling of soil up to required depth is required for the construction of the foundation and trenches.

Earthwork can involve steps including:

- Importing and exporting of soil
- Soil stabilization
- Construction grading
- Compaction and density testing

These are the main steps in preparing the site for proper and safe building construction.

Pad/Foundation

Once proper earthwork has been completed and the ground is set, the construction process will move into setting the building's foundation.

The initial step is to excavate for the building's footings – elements that are put into place in order to ensure a stable base that will support the future load bearing foundation walls. Taking into account the composition of the surrounding soil, you'll excavate a trench in order to set the building's footings.

From there, crews will dive into laying the forms, setting rebar, and pouring the foundation for the building. The foundation is designed to provide support for the entire structure.

Building Construction

The building construction is when the property you envision begins to take form as you add structure to your property. Frames, walls, roofs, and all of the major components of building the “bones” of a commercial real estate development. Some of the major work involves:

Site Utilities

Site utility work includes preparing the property to connect to public utilities. These including water, sewer, electric, and gas.

Framing

Framing consists of creating the broad pieces that will give support and shape to the building. This may involve either a wood frame, structural steel, or concrete.

Roofing

Depending on the type of roof, this may involve elements such as building out the rafters, ceiling joists, trusses, insulation, structural deck, and the appropriate roof covering.

HVAC

Involves preparing the installation site by setting either setting a pad or installing a

rooftop support structure. The duct-work and electrical is also prepared for interior connection.

Interior Work

The interior work that goes into a new commercial development involves many of the details that customers and occupants will see and deal with on a daily basis. The interior work is what takes the building from being a bare shell, to a habitable development. There are a lot of minor details that go into this step of the development process, but the major interior work that's performed is:

- Interior Electrical
- Ductwork
- Insulation
- Drywall
- Flooring
- Ceiling
- Doors and hardware
- Painting
- Fixtures

On-site Work

Beside the construction of the building itself, work must be done on the surrounding property in order to make for a complete, well-rounded commercial development. Some of that on-site work includes:

Site Grading

This is the process of distributing dirt in a strategic way to ensure the proper water runoff and to prepare the site for additional work, such as paving and landscaping.

Paving and Striping Parking

Once the site is properly graded, you can move forward with paving the parking area. The parking area should be smooth, contain a level, compacted base, and have proper drainage. Then, upon proper paving, the lot can be striped.

Landscaping

This involves installing irrigation, planting decorative or shade trees, bushes, flowers, gravel, or any other elements that add to the visual appeal of the property.

Off-site Work

Refers to work outside of the property site that is meant to support the new development. This includes infrastructure such as access roads, sidewalks and curbs, and other supplemental utility work.

Inspections

Upon completion of each project, inspections must take place to ensure that the major elements meet all municipal codes and ordinances. While periodic inspections take place during the construction phase, final inspections must be performed to assure that the buildings are safe for occupancy. Elements inspected include:

- Structural and Building envelope
- Roof surface
- Plumbing
- Electrical
- HVAC
- Fire/Safety
- Interior Elements

Construction Close-out

The close-out of a project typically involves developing a detailed schedule of duties including punch lists, equipment testing, startup procedures, and occupancy. Close-out may also involve gathering and retaining critical records and documentation for the project, in case there are any questions or issues to be addressed after project completion.

The close-out process addresses everything from the work performed by contractors to returning of rented equipment. It's to ensure that your new development is more than prepared to be turned over to the tenant.

Punch-list

The construction punch-list is used to address any unresolved tasks or issues before final occupancy. It's used as a control measure to ensure the quality standards of the developer and future tenant are met.

The punch-list usually includes a plan for completion of items including any minor repairs to finishes, cleanup, or any outstanding installations.

Certificate of Occupancy

Once the project meets all of the final inspections, codes, and ordinances, the appropriate municipal agency will issue a Certificate of Occupancy for the property.

Issuance certifies that the property is suitable for occupancy by the proposed user, or type of user, and that the building complies with the plans and specifications that were initially submitted and approved.

Tenant Move-in

The "final step" in the commercial real estate development process: tenant move-in. As it implies, this means the property is prepared for the tenant to set up shop and eventually open for business. The project has officially gone from conceptualization to construction to handing over the keys.